Testimony of James A. Bruggeman

Chairman Grassley, Ranking Member Senator Breaux, and members of the Committee. Thank you for including my written testimony in the hearing record for today's hearing.

My name is James A. Bruggeman. I am a 28-year employee of Central and South West Corporation (CSW) from Tulsa, Oklahoma. In July 1997, my company converted from its traditional defined benefit pension plan to a "cash-balance" pension plan. As a result, I will lose approximately 30% of the value of my pension, which translates into a lump-sum dollar loss well in excess of $400,000.

## Disclosure

It took several months of my personal time to gather information and to prepare spreadsheets to make this loss calculation because my employer has refused to provide me with comparisons of my benefits under the old and new plans. My employer has also refused to provide computer software that would allow its employees to make these calculations. Fortunately, I have a background in probabilities and statistics and present value comparisons through my formal education, work experience and hobbies. Without this background, I would have been unable to make the calculations.

For me this is a very serious loss. It may very well change my retirement plans. I would have to work several more years to make up the loss.

My company announced in August 1997 that it saved $20 million in 1997 due to the new plan. And the new pension plan was in effect only six months of 1997. The company also stated that it expected to realize significant ongoing reductions in operating and maintenance expense because of the change. In December 1996, CSW entered into "Change of Control Agreements" with 16 key executives. CSW later reported that these agreements require it to pay the 16 executives $69 million upon closing of a contemplated merger between CSW and American Electric Power Company. In addition, CSW executives have received healthy bonuses in every year since the new pension plan became effective.

Current law allows companies to make these changes to employee pension plans without even disclosing the actual benefit cuts. This is outrageous. My employer's communications to it employees went so far as to lead employees into believing that their benefits were not being reduced. Congress must change the law to require employers to disclose the amount of the benefit reductions. Employees deserve to know how they are being affected.

Not only must Congress change the law to require employers to disclose the amount of the benefit reduction, the law needs to be changed to require the IRS to review these disclosures. As I mentioned above, my employer refused to provide to me benefit comparisons for the new and old pension plans. My employer also refused to provide these comparisons to other employees that requested them.

My employer did respond to the request of the IBEW in 1999 for a comparison of benefits. The IBEW requested a comparison of retirement benefits under the old and new pension plans for employees of various ages and years of service. The IBEW provided the assumptions (such as future pay increases) that it wanted CSW to use in developing the comparisons. However, by duplicating the comparisons that CSW's provided to the IBEW, I discovered that CSW did not use those assumptions and instead used unrealistic assumptions (such as zero pay raises in the future) to drastically skew the comparisons in favor of the new cash-balance pension plan. Moreover, CSW told the IBEW that it had used the assumptions provided by the IBEW. Thus, the need for the IRS to review and approve disclosure information.

## Wearaway

One characteristic of cash-balance plans that needs to be eliminated is something called "wearaway". There are two aspects of "wearaway". First, an employer can arbitrarily establish the beginning balance of the cash-balance account. At their society meetings, actuaries have joked that the beginning balance can be anything, including license plate numbers or shoe sizes.

By law, my benefit under the new cash-balance plan cannot be less than the benefit that I had accrued under the prior pension plan. The benefit accrued under the prior plan is often referred to as the "frozen benefit". The "frozen benefit" is the benefit calculated under the prior pension plan formula assuming salary and years of service are frozen at the levels existing on the effective date of the plan change.

The beginning balance of the cash-balance account is often less than the frozen benefit at the time of the plan change. In my case, the beginning cash balance was $296,000 (lump sum) and my frozen benefit (a monthly annuity) at the time of the plan change was equivalent to a lump sum of $352,000. Even though, by law I could effectively receive the $352,000 (in the form of monthly annuities) if I terminated employment at the time of the plan change, it would take two years for the initial cash balance of $296,000 to grow to that amount. That is, it would take two years for the difference between the $352,000 and the $296,000 to wear away to zero. The law should be changed to remove this aspect of "wearaway".

A second aspect of "wearaway" resulted from my employer not reflecting early retirement subsidies in the cash-balance account. By law, the early-retirement subsidies in my employer's prior pension plan must be reflected in the calculation of the above described "frozen benefit". Unfortunately, the law does not require the cash-balance account to include these subsidies. As a result, the balance in my cash-balance account is considerably lower than the lump sum value of the "frozen benefit" and it takes several years for the balance in the cash-balance account to grow to the value of the "frozen benefit". Assuming that I continue to work for my employer, my cash balance does not reach my "frozen benefit" until age 63. I am presently 51 years of age and I was 48 years of age when my employer implemented its case balance plan.

Clever actuaries have intentionally designed the cash-balance account to be worth far less than it should be. The companies adopting these plans know that they will save considerable money if employees take the cash-balance lump sum instead of the "frozen benefit". However, these companies wish this fact to remain a secret. It has been a secret because employers do not have to provide the necessary disclosure information that would reveal a comparison of the two options.

It has also been a secret because the vast majority of employees (perhaps 99% or more) do not have the expertise to make the comparisons by themselves. Appropriate disclosure would unveil this secret, allowing the employee to understand how the cash-balance and frozen benefit options truly compare. Even better, eliminating this aspect of "wearaway" would ensure that these options are comparable.

I respectfully request that you support legislation that will provide the adequate disclosure of the change in benefits that result from a plan change and the elimination of "wearaway".